VZCZCXYZ0000
RR RUEHWEB

DE RUEHAM #1161/01 1081529
ZNR UUUUU ZZH
R 171529Z APR 08
FM AMEMBASSY AMMAN
TO RUEHC/SECSTATE WASHDC 2284
INFO RUEHEG/AMEMBASSY CAIRO 3619
RUEHTV/AMEMBASSY TEL AVIV 1146
RUEHDM/AMEMBASSY DAMASCUS 3869
RUEHJM/AMCONSUL JERUSALEM 4984
RUEHRH/AMEMBASSY RIYADH 1937
RUCPDOC/DEPT OF COMMERCE WASHDC
RHEBAAA/DEPT OF ENERGY WASHDC

UNCLAS AMMAN 001161

SIPDIS

SIPDIS
SENSITIVE

STATE FOR NEA/ELA
STATE PLEASE PASS TO USAID

E.O. 12958: N/A
TAGS: ENRG EPET ECON EINV JO
SUBJECT: Restructuring of Jordan's Oil Sector Lagging

Sensitive but unclassified; please protect accordingly. Contains proprietary information - not for distribution outside the USG.

Refs: A) Amman 628
B) Amman 233
C) 07 Amman 2442
D) 07 Amman 1452

¶1. (SBU) SUMMARY: Jordan's plans to open up the oil sector to competition are running behind schedule. The draft Minerals and Petroleum Law -- the main legislation that will set up a regulatory framework for opening up the sector -- is still pending Cabinet and parliamentary approval. Before complete liberalization of the market, the law would allow for a five-year transitional market structure, including a logistics company and four marketing companies to import and distribute fuel products to retailers. The GOJ plans to move ahead with this new structure before approval of the law by announcing tenders within the month. End Summary.

Draft Minerals and Petroleum Law Pending

¶2. (SBU) Kholoud Ahmad Mahasneh, Director of the Industrial Energy Department at the Ministry of Energy and Mineral Resources (MEMR), discussed ongoing plans to restructure and liberalize the hydrocarbon sector in Jordan during an April 16 meeting with Econoffs. Although Jordan aimed to have a regulatory framework in place and to open up the upstream and downstream markets by March 2008 - when the 50-year concession of the Jordan Petroleum Refinery Company (JPRC) for importing, transporting, marketing, and distributing fuel products ended - Mahasneh admitted that these original plans are now behind schedule by about a year (ref B).

¶3. (SBU) Mahasneh confirmed that the draft Minerals and Petroleum Law was still under review in the Prime Ministry's Legislation and Opinion Bureau. Assuming that the law receives Cabinet approval within the next month, MEMR hopes that it will be included on the agenda for the next potential special parliamentary session in June, although a number of competing high-priority laws could result in its being deferred until the normal parliamentary session in October. This law would effectively establish a new regulatory commission, similar in mission to the U.S. Federal Energy Regulatory Commission, to guide activities within the sector in a regulated manner. The Commission would also take over some of the Natural Resource Authority's current responsibilities to grant production sharing agreements, concessions, and other mining licenses. Mahasneh said that MEMR also drafted regulations for the law, which provide more detail on its implementation, but the GOJ would most

likely need technical assistance in reviewing and refining the regulations, as well as drafting additional directives.

Jordan's Refinery Remains
Sole Provider of Fuel Products

¶4. (SBU) Given the lag in opening up the market, JPRC signed a service agreement with the GOJ in March 2008, valid until December 31, 2008 (ref A). Mahasneh noted that in the past, the GOJ was responsible for paying for and transporting crude oil to JPRC's refinery in Zarka, but under the new agreement, JPRC has taken over those responsibilities. In addition to the service agreement, JPRC reportedly signed a settlement agreement with the GOJ to sell its assets in Aqaba and at Jordan's three civilian airports to the Jordanian government. According to Mahasneh, these assets will be used by a future logistics company, of which the government will have a 20% share.

Planning to Move Forward with New Market Structure
--- -----

¶5. (SBU) The logistics company is one of the new entities to be established in Jordan as part of a transitional market structure before completely opening up the sector. The logistics company will provide transportation and storage facilities, but will not own or trade products. Mahasneh said the GOJ will also give two- to three-year licenses to four other marketing companies, one of which will be owned by JPRC. NOTE: Three distribution companies will also be established specifically for liquefied petroleum gas (LPG). END NOTE. The four marketing companies will be responsible for importing products or buying products from JPRC or future refineries in Jordan. Mahasneh clarified that JPRC will be required to sell to the other three marketing companies -- and the marketing companies will be required to buy -- 75% of the refinery's production. Meanwhile, JPRC continues to advertise for and accept bids for a strategic partner to upgrade and expand its capacity, as well as build a crude oil transportation pipeline from Aqaba to Zarka (refs B, C, and D).

¶6. (SBU) The future marketing companies will supply products to wholesale and large industrial customers. They will also be able to own retail stations. Mahasneh said that the existing gas stations will be divided into four tranches, according to volume and location, and each marketing company will be allocated one tranche, effectively requiring the gas stations to buy from that designated company.

¶7. (SBU) Mahasneh said that although the draft law provides for this transitional market structure and regulatory framework, the government cannot wait for parliamentary approval of the law, which might still take some time. Therefore, she said that plans were moving forward to establish this new structure, and tenders should go out in the next month. The government plans to include in each contract provisions similar to those in the draft law to protect investors and provide regulatory guidelines that will hold even if the final law changes.

Visit Amman's Classified Website at:
http://www.state.gov.sgov.gov/p/nea/amman/

HALE